

Town of Zwolle, Louisiana
FINANCIAL REPORT
YEAR ENDED MAY 31, 2004

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 12-8-04



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Eugene W. Fremaux II

Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT

The Honorable Roger Lopez, Mayor
and Board of Aldermen
Town of Zwolle, Louisiana

I have audited the accompanying general purpose financial statements of the Town of Zwolle, Louisiana, and the combining, individual fund and account group financial statements of the Town of Zwolle, Louisiana, as of May 31, 2004, and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the Town's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Town of Zwolle, Louisiana, as of May 31, 2004, the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also, in my opinion, the combining, individual fund, and account group financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of each of the individual funds and account groups of the Town of Zwolle at May 31, 2004, and the results of operations of such funds and the cash flows of the individual proprietary fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

My audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole and on the combining, individual fund and account group financial statements. The accompanying financial information listed as "Other Supplementary Information" in the table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the Town of Zwolle, Louisiana. Such information has been subjected to the auditing procedures applied in the audit of the general purpose, combining, individual fund and account group financial statements and in my opinion, is fairly presented in all material respects in relation to the financial statements of each of the respective individual funds and account groups, taken as a whole.

In accordance with Government Auditing Standards, I have also issued my report dated November 29, 2004 on my consideration of the Town of Zwolle, Louisiana's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed

in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

The financial statements for the year ended May 31, 2003, which are included for comparative purposes, were taken from the financial report for that year in which I expressed an unqualified opinion dated November 21, 2003, on the general purpose, combining, individual fund, and account group financial statements of the Town of Zwolle, Louisiana.



EUGENE W. FREMAUX II, CPA

November 29, 2004

GENERAL PURPOSE FINANCIAL STATEMENTS
(COMBINED STATEMENTS - OVERVIEW)

TOWN OF ZWOLLE, LOUISIANA
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
MAY 31, 2004

	GOVERNMENTAL FUND TYPE		PROPRIETARY FUND TYPE		ACCOUNT GROUP	TOTALS (MEMORANDUM ONLY)	
	GENERAL	CAPITAL PROJECTS	ENTERPRISE	FIXED ASSETS		2004	MAY 31, 2003
ASSETS							
Cash and cash equivalents	\$118,004	\$751	\$230,552			\$349,307	\$335,766
Investments	200,763		100,381			301,144	301,732
Receivables	8,397		27,389			35,786	38,716
Due from Water and Sewer Fund	60,289					60,289	54,582
Due from General Fund						0	0
Due from other governments	40,123	5,158	0			45,281	94,567
Prepaid expenses	15,155		0			15,155	16,104
Restricted cash and cash equivalents	34,914		90,883			125,797	179,289
Land			4,560		\$121,491	126,051	126,051
Buildings					201,656	201,656	191,904
Equipment					177,461	177,461	174,961
Autos and trucks					205,395	205,395	205,395
Recreation equipment					411,081	411,081	237,006
Utility plant and equipment			3,994,212			3,994,212	3,976,795
Accumulated depreciation			(1,197,808)			(1,197,808)	(1,127,331)
Total assets	\$477,645	\$5,909	\$3,250,169		\$1,117,084	\$4,850,807	\$4,805,537

The notes to the financial statements are an integral part of this statement.

TOWN OF ZWOLLE, LOUISIANA
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
MAY 31, 2004

	GOVERNMENTAL FUND TYPE		PROPRIETARY FUND TYPE	ACCOUNT GROUP	TOTALS (MEMORANDUM ONLY)	
	GENERAL	CAPITAL PROJECTS	ENTERPRISE	GENERAL FIXED ASSETS	2004	MAY 31, 2003
LIABILITIES AND FUND EQUITY						
Liabilities:						
Accounts payable	\$53,517	\$5,909	\$13,464		\$72,890	\$63,514
Sales taxes payable			122		122	343
Payroll taxes withheld and payable	3,312				3,312	1,211
Accrued wages payable	5,773				5,773	8,356
Unearned grant revenue	0				0	64,898
Notes payable	168,043		10,000		178,043	191,734
Payable from restricted assets:						
Customers' deposits			27,405		27,405	25,870
Water revenue bonds-current portion			12,698		12,698	12,079
Interest payable			547		547	575
Long-term notes payable			738,724		738,724	761,345
Due to Capital Projects Fund					0	0
Due to General Fund			60,289		60,289	54,582
Total liabilities	230,645	5,909	863,249	0	1,099,803	1,184,507
Fund Equity:						
Contributed capital			2,590,031	\$1,117,084	2,590,031	2,598,199
Investments in general fixed assets					1,117,084	930,757
Retained earnings:						
Reserved			63,478		63,478	62,859
Unreserved			(266,589)		(266,589)	(199,097)
Fund balances:						
Unreserved:						
Undesignated	247,000	\$0			247,000	228,312
Total retained earnings(deficit)/fund balances	247,000	0	(203,111)	0	43,889	92,074
Total fund equity	247,000	0	2,386,920	1,117,084	3,751,004	3,621,030
Total liabilities and fund equity	\$477,645	\$5,909	\$3,250,169	\$1,117,084	\$4,850,807	\$4,805,537

The notes to the financial statements are an integral part of this statement.

TOWN OF ZWOLLE, LOUISIANA
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 GOVERNMENTAL FUND TYPE
 GENERAL FUND
 YEARS ENDED MAY 31, 2004 AND 2003

	<u>YEAR ENDED MAY 31,</u>	
	2004	2003
Revenues:		
Taxes	\$345,315	\$321,511
Licenses and permits	90,840	77,613
Intergovernmental	213,400	129,133
Charges for services	63,250	57,275
Fines and forfeits	42,614	33,078
Miscellaneous	<u>64,618</u>	<u>21,795</u>
Total revenues	<u>820,037</u>	<u>640,405</u>
Expenditures:		
Current:		
General government	146,837	140,550
Public safety:		
Police department	226,925	250,541
Fire department	2,106	0
Highways and streets	169,794	136,331
Health and sanitation	68,221	68,994
Recreation	<u>187,466</u>	<u>209,478</u>
Total expenditures	<u>801,349</u>	<u>805,894</u>
Excess of revenues over expenditures	18,688	(165,489)
Fund balances, beginning of year	<u>228,312</u>	<u>393,801</u>
Fund balances, end of year	<u>\$247,000</u>	<u>\$228,312</u>

The notes to the financial statements are an integral part of this statement.

EXHIBIT C

TOWN OF ZWOLLE, LOUISIANA
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 BUDGET (GAAP BASIS) AND ACTUAL - GOVERNMENTAL FUND TYPE
 GENERAL FUND
 YEARS ENDED MAY 31, 2004 AND 2003

	2004			2003		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Revenues:						
Taxes	\$327,000	\$345,315	\$18,315	\$336,000	\$321,511	(\$14,489)
Licenses and permits	76,800	90,840	14,040	75,300	77,613	2,313
Intergovernmental	948,349	213,400	(734,949)	67,900	129,133	61,233
Charges for services	64,500	63,250	(1,250)	53,000	57,275	4,275
Fines and forfeits	35,000	42,614	7,614	38,000	33,078	(4,922)
Miscellaneous	79,350	64,618	(14,732)	89,470	21,795	(67,675)
Total revenues	1,530,999	820,037	(710,962)	659,670	640,405	(19,265)
Expenditures:						
Current:						
General government	396,199	146,837	249,362	388,649	140,550	248,099
Public safety:						
Police department	247,918	226,925	20,993	225,050	250,541	(25,491)
Fire department	0	2,106	(2,106)	0	0	0
Highways and streets	528,171	169,794	358,377	132,976	136,331	(3,355)
Health and sanitation	57,046	68,221	(11,175)	60,875	68,994	(8,119)
Recreation	416,303	187,466	228,837	137,645	209,478	(71,833)
Total expenditures	1,645,637	801,349	844,288	945,195	805,894	139,301
Excess (deficiency) of revenues over (under) expenditures	(114,638)	18,688	133,326	(285,525)	(165,489)	120,036
Other financing uses:						
Operating transfers out	0	0	0	0	0	0
Total other financing uses	0	0	0	0	0	0
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	(114,638)	18,688	133,326	(285,525)	(165,489)	120,036
Fund balances, beginning of year	228,312	228,312	0	393,801	393,801	0
Fund balances, end of year	\$113,674	\$247,000	\$133,326	\$108,276	\$228,312	\$120,036

The notes to the financial statements are an integral part of this statement.

TOWN OF ZWOLLE, LOUISIANA
 COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS -
 PROPRIETARY FUND TYPE
 YEARS ENDED MAY 31, 2004 AND 2003

	<u>YEAR ENDED MAY 31,</u>	
	<u>2004</u>	<u>2003</u>
Operating revenues:		
Water charges	\$183,975	\$207,572
Sewer charges	112,838	119,217
Tap, connect and reconnect fees	13,140	15,354
Total operating revenues	<u>309,953</u>	<u>342,143</u>
Operating expenses:		
Water Department:		
Legal and accounting	1,775	1,856
Bad debt expense	352	1,294
Depreciation	32,431	31,308
Insurance	9,317	6,491
Miscellaneous	11,526	11,646
Office supplies	4,142	4,244
Payroll taxes	4,054	4,008
Rent	10,888	3,908
Repairs and maintenance	16,315	7,720
Salaries	52,996	51,634
Supplies	25,630	22,962
Telephone	2,205	1,415
Travel	788	1,012
Truck expense	3,674	3,858
Utilities	<u>22,006</u>	<u>24,289</u>
Total water department expenses	<u>198,099</u>	<u>177,645</u>
Sewer Department:		
Chemicals	9,523	3,462
Legal and accounting	1,775	1,856
Consultant fees	0	31
Depreciation	59,205	49,282
Insurance	3,883	2,741
Miscellaneous	4,853	3,945
Office supplies	0	0
Payroll taxes	1,363	1,336
Repairs and maintenance	4,079	14,867
Salaries	17,822	17,463
Sewer testing	3,550	4,260
Supplies	11,100	4,445
Travel	420	615
Truck expenses	0	0
Utilities	<u>31,467</u>	<u>28,224</u>
Total sewer department expenses	<u>149,040</u>	<u>132,527</u>
Total operating expenses	<u>347,139</u>	<u>310,172</u>
Operating income (loss)	<u>(37,186)</u>	<u>31,971</u>
Nonoperating revenues (expenses):		
Interest income	3,867	6,369
Interest expense	<u>(33,554)</u>	<u>(34,176)</u>
	<u>(29,687)</u>	<u>(27,807)</u>
Net income (loss)	(66,873)	4,164
Retained earnings, beginning of year	<u>(136,238)</u>	<u>(140,402)</u>
Retained earnings (deficit), end of year	<u>(\$203,111)</u>	<u>(\$136,238)</u>

The accompanying notes are an integral part of these statements.

TOWN OF ZWOLLE, LOUISIANA
 COMPARATIVE STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE
 YEARS ENDED MAY 31, 2004 AND 2003

	<u>YEAR ENDED MAY 31,</u>	
	2004	2003
Cash flows from operating activities:		
Cash received from customers	\$312,109	\$342,322
Cash payments to suppliers and employees	(265,125)	(207,889)
Cash received from customers' deposits	7,225	6,475
Cash refunded for customers' deposits	<u>(5,690)</u>	<u>(3,965)</u>
Net cash provided by operating activities	48,519	136,943
Cash flows from capital and related financing activities:		
Principal paid on revenue bonds	(12,002)	(11,417)
Grant funds received from Louisiana	20,373	235,649
Grant funds received from federal sources	0	0
Loan from Louisiana Dept. of Transportation	0	0
Loan from Balar	0	0
Principal paid on Balar loan	(10,000)	(10,000)
Interest paid on revenue bonds	(33,582)	(34,167)
Payments for construction activities	0	0
Payments for capital acquisitions	<u>(39,516)</u>	<u>(265,072)</u>
Net cash provided (used) by capital and related financing activities	<u>(74,727)</u>	<u>(85,007)</u>
Cash flows from investing activities:		
Receipt of interest	<u>6,369</u>	<u>6,369</u>
Net cash provided by investing activities	<u>6,369</u>	<u>6,369</u>
Net increase (decrease) in cash and cash equivalents	(19,839)	58,305
Cash and cash equivalents, beginning of year	<u>441,655</u>	<u>383,350</u>
Cash and cash equivalents, end of year	<u>\$421,816</u>	<u>\$441,655</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	<u>(\$37,186)</u>	<u>\$31,971</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	91,636	80,590
Provision for doubtful accounts receivable	352	1,294
(Increase) decrease in accounts receivable	2,156	179
(Increase) decrease in prepaid expenses	667	0
Increase (decrease) in sales taxes payable	(221)	(204)
Increase (decrease) in accounts payable and accrued wages payable	(16,127)	24,565
Increase in customers' deposits	1,535	2,510
Increase (decrease) in due to other funds	<u>5,707</u>	<u>(3,962)</u>
Total adjustments to operating income (loss)	<u>85,705</u>	<u>104,972</u>
Net cash provided by operating activities	<u>\$48,519</u>	<u>\$136,943</u>

The accompanying notes are an integral part of these statements.

TOWN OF ZWOLLE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2004

(1) Summary of Significant Accounting Policies

The Town of Zwolle was incorporated September 13, 1889, under the provisions of a home rule charter. The Town operates under a Mayor-Board of Aldermen form of government.

The accounting and reporting policies of the Town of Zwolle conform to generally accepted accounting principles (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Such accounting and reporting procedures also conform to the requirements of Louisiana Revised Statutes 24:517 and to the guides set forth in the Louisiana Governmental Audit Guide, and to the industry audit guide, Audits of State and Local Governmental Units.

The more significant of the government's accounting policies are described below.

Principles determining scope of reporting entity

In evaluating how to define the Town of Zwolle for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, the financial statements of the Town of Zwolle consists of only the funds and account groups since the Town has no oversight responsibility for any other governmental entity.

Fund accounting

The accounts of the Town of Zwolle are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into two generic fund types and two broad fund categories

TOWN OF ZWOLLE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
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as follows:

Governmental Fund - General Fund

The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Projects Fund

The Capital Projects Fund is used to account for financial resources to be used for the construction of major capital facilities.

Proprietary Fund - Enterprise Fund

Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing water and sewer services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

In addition to the two broad types of governmental funds, the Town also maintains one account group as described below:

General Fixed Assets Account Group -

This is not a fund but rather an account group that is used to account for general fixed assets acquired principally for general purposes and excludes fixed assets in the Enterprise Fund.

Fixed assets and long-term liabilities

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus.

All governmental fund type operations are accounted for on a spending or "financial flow" measurement focus and only current assets and current liabilities are generally included on their balance sheets.

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group, and are recorded as expenditures in the governmental fund types when purchased. The Town has elected not to capitalize public domain ("infrastructure") fixed assets consisting of certain improvements other than buildings, including roads, bridges, sidewalks, and drainage improvements. No depreciation has been provided on general fixed assets.

TOWN OF ZWOLLE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2004

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are stated at their estimated fair market value on the date donated. Repairs and maintenance are recorded as expenditures; renewals and betterments are capitalized.

Long-term liabilities expected to be financed from general governmental funds are accounted for in the General Long-Term Debt Account Group. The Town has no long-term liabilities as of May 31, 2004.

The account group is not a "fund". It is concerned only with the measurement of financial position. It is not concerned with measurement of results of operations.

The proprietary fund is accounted for on a cost of services or "capital maintenance" measurement focus, and all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets.

Depreciation of all exhaustible fixed assets by the proprietary fund is charged as an expense against its operations. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Water and sewer system	10-50 years
Water wells and pumps	20 years
Water filter systems	10-25 years
Water meters and hydrants	25 years
Trucks	5 years
Equipment	5-25 years

Basis of accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become susceptible to accrual (i.e., measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon

TOWN OF ZWOLLE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
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enough thereafter to be used to pay liabilities of the current period. The Town considers property taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred except that accumulated unpaid vacation and sick pay are not accrued and principal and interest on general long-term debt is recognized when due. Purchase of various operating supplies are regarded as expenditures at the time purchased.

The primary revenue sources which are susceptible to accrual under the modified accrual basis of accounting include governmental revenues received for a specific period or quarter such as beer tax, fire insurance tax, garbage charges receivable from the Enterprise Fund, sales taxes, franchise taxes, and interest income. These revenue sources are accrued, when their receipt occurs soon enough after the end of the accounting period so as to be both measurable and available. Taxpayer assessed income, such as ad valorem taxes, and gross receipts from fines, occupational licenses and permits are considered measurable when in the hands of collecting governments and are recognized as revenue at that time. Miscellaneous revenues other than interest income are recorded when received in cash because they are generally not measurable until actually received.

The proprietary fund is accounted for using the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when they are incurred.

The Town reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the Town before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, or when the Town has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Budgets and Budgetary Accounting

The Town follows these procedures in establishing the budgetary data reflected in these financial statements:

1. The Town Treasurer prepares a proposed budget and submits same to the Mayor and Board of Aldermen no later than fifteen days prior to the beginning of each fiscal year.
2. A summary of the proposed budget is published and the public notified that the proposed budget is available for public inspection. At the same time, a public hearing is called.
3. A public hearing is held on the proposed budget at least ten days after publication of the call for the hearing.

TOWN OF ZWOLLE, LOUISIANA
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4. After the holding of the public hearing and completion of all action necessary to finalize and implement the budget, the budget is adopted through passage of an ordinance prior to the commencement of the fiscal year for which the budget is being adopted.

5. Budgetary amendments involving the transfer of funds from one department, program or function to another or involving increases in expenditures resulting from revenues exceeding estimated amounts require the approval of the Board of Aldermen.

6. All budgetary appropriations lapse at the end of each fiscal year.

7. The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended from time to time by the Board of Aldermen.

8. A budget is adopted for the Proprietary Fund on an accrual basis.

Cash and cash equivalents

Consistent with GASB Statement 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting, the Town of Zwolle defines cash and cash equivalents as follows:

Cash - includes not only currency on hand but also demand deposits with banks or other financial institutions and other kinds of accounts that have the general characteristics of demand deposits in that the customer may deposit additional funds at any time and also effectively may withdraw funds at any time without prior notice or penalty.

Cash equivalents - short term, highly liquid investments that are readily convertible to known amounts of cash and are so near their maturity that they present insignificant risk of changes in value because of interest rates. Generally, only investments with original maturities of three months or less qualify under this definition.

Bad debts

Uncollectible amounts due for ad valorem taxes and customers' utility receivables are recognized as bad debts through the establishment of an allowance account at the time information becomes available which would indicate the uncollectibility of the particular receivable.

Comparative data

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the Town's financial position and operations. However, comparative (i.e., presentation of prior year totals by fund type) data have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read.

TOWN OF ZWOLLE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2004

Total columns on combined statements - overview

Total columns on the combined statements - overview are captioned "(MEMORANDUM ONLY)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Compensated absences

Employees of the Town are entitled to paid vacation depending on job classification, length of service, and other factors. Employees' vacation earned does not accumulate or vest. Therefore, no liability for compensated absences has been recorded in the accompanying financial statements. The Town's policy is to recognize the costs of compensated absences when actually paid to employees.

(2) Ad Valorem Taxes

Ad Valorem taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied by the Town in October and are actually billed to the taxpayers in November. Billed taxes become delinquent on January 1 of the following year and penalties are assessed. All ad valorem tax revenues are recognized in compliance with NCGA Interpretation - 3 and GASB Codification Section P70 (Revenue Recognition - Property Taxes) which states that such revenue is recorded when it becomes measurable and available. Available means due, or past due and receivable within the current period and collected no longer than 60 days after the close of the current period.

The Town bills and collects its own property taxes using the assessed values determined by the tax assessor of Sabine Parish.

For the year ended May 31, 2004, taxes of 7.99 mills were levied on property with assessed valuations totaling \$6,091,120. Total taxes levied were \$48,668 which were for general corporate purposes.

(3) Interfund Receivables and Payables

Individual interfund receivables and payable balances at May 31, 2004, were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 60,289	\$ 0
Proprietary Fund	<u>0</u>	<u>60,289</u>
<u>Total</u>	<u>\$ 60,289</u>	<u>\$ 60,289</u>

TOWN OF ZWOLLE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2004

(4) Due from Other Governmental Units

Amounts due from other governmental units at May 31, 2004, consisted of the following:

General Fund

Due from State of Louisiana	\$ 9,135
Due from Sabine Housing Authority	6,859
Due from Sabine Sales Tax Commission	18,409
Due from U.S. Department of Justice	<u>5,720</u>
	<u>40,123</u>

Capital Projects Fund

Due from State of Louisiana	<u>5,158</u>
	<u>\$ 45,281</u>

(5) Restricted Assets - Proprietary Fund Type

Restricted assets were applicable to the following at May 31:

	<u>2004</u>	<u>2003</u>
Customers' deposits	\$ 27,405	\$ 25,870
Revenue bonds:		
Sinking fund	5,014	4,965
Reserve fund	29,232	28,947
Depreciation & contingency fund	29,232	28,947
Construction fund	<u>0</u>	<u>0</u>
 Total restricted assets	 \$ 90,883 =====	 \$ 88,729 =====

(6) Changes in Fixed Assets

A summary of changes in general fixed assets follows:

	BALANCE JUNE 1, <u>2003</u>	ADDITIONS	DEDUCTIONS	BALANCE MAY 31, <u>2004</u>
Land	\$121,491	\$ 0	\$ 0	\$121,491
Buildings	191,904	9,752	0	201,656
Equipment	174,961	2,500	0	177,461
Autos and trucks	205,395	0	0	205,395
Recreation equipment	<u>237,006</u>	<u>174,075</u>	<u>0</u>	<u>411,081</u>

TOWN OF ZWOLLE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2004

<u>Total</u>	\$930,757	\$186,327	\$ 0	\$1,117,084
	=====	=====	=====	=====

A summary of proprietary fund type property, plant and equipment at May 31, 2004 follows:

Building	\$ 5,940
Water system	1,283,464
Sewer system	2,459,748
Water wells and pumps	145,550
Water filter systems	29,694
Water meters and hydrants	21,604
Trucks	15,002
Equipment	<u>32,230</u>
	3,994,232
Less accumulated depreciation	<u>(1,197,808)</u>
<u>Net</u>	<u>\$2,796,404</u>

(7) Pension Plans

Substantially all employees of the Town of Zwolle are members of the following statewide retirements systems. These systems are cost sharing, multiple-employer defined benefit pension plans administered by separate boards of trustees. Pertinent information relative to each plan follows:

Municipal Police Employees' Retirement System

Plan Description. The Municipal Police Employees' Retirement System provides retirement benefits to employees of any municipality in the state which employs a full-time police officer, empowered to make arrests, or which has an elected Chief of Police whose salary is at least \$100 per month.

Eligible employees include any full-time police officer, empowered to make arrests, employed by a municipality of the State and engaged in law enforcement, earning at least \$375 per month excluding state supplemental pay, or an elected Chief of Police whose salary is at least \$100 per month. Elected Councilmen and Mayors are excluded from membership.

Persons who were members on September 7, 1977 must remain members of the System and persons hired on or after that date must become members of the System as a condition of employment if they are under age 50 and are not covered by the Social Security System.

Employees attaining the age of 50 completing 20 or more years of service, or the age of 55 and completing 12 years of service, are entitled to a yearly benefit of 3 1/3%

TOWN OF ZWOLLE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2004

of their average final compensation, as defined in the plan, times years of creditable service. Active employees who become disabled after 1985 due to total and permanent disability, with at least 5 years of creditable service, receive a benefit of 3% of average final compensation multiplied by the years of creditable service, but not less than 40% nor more than 60% of average final compensation. Upon reaching retirement age, disability pensioners receive the greater of disability benefits or accrued benefits earned to the date of disability. Prior to the enactment of Act 81 of 1985, other disability rules may be applicable as described in the plan. The system also provides for death benefits as described in the plan.

The System issues an annual publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Municipal Police Employees Retirement System of Louisiana, 8401 United Plaza Boulevard, Baton Rouge, Louisiana 70809-2250, or by calling 225-929-7411.

Funding Policy. Covered employees are required by state statute to contribute 7.5% of their salary to the System. The Town is required to contribute 15.25% of covered employees' salaries to the System. The contribution requirement for the Town of Zwolle for the year ended May 31, 2004 and 2003 were \$8,050 and \$5,481, respectively. The contribution requirements of plan members and the Town of Zwolle are established and may be amended by state statute. As provided by Louisiana Revised Statute 11:103, the employer contributions are determined by actuarial valuation and are subject to change each year based on the results of the valuation for the prior fiscal year.

Municipal Employees' Retirement System

Plan Description. Other full time employees participate in the Municipal Employees' Retirement System of Louisiana (the System), Plan B, a multiple-employer public employee retirement system. Employees who retire at or after age 65 with 10 years of credited service are entitled to a retirement benefit, payable monthly for life, equal to 2 percent of their final-average salary for each year of credited service. Final-average salary is the employee's average salary over the last three years of credited service. Employees may retire at or after age 60 and receive reduced retirement benefits. The System also provides death and disability benefits. Benefits are established by State statute.

The System issues an annual publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Municipal Employees Retirement System of Louisiana, 7937 Office Park Boulevard, Baton Rouge, Louisiana 70809, or by calling 225-925-4810.

Funding Policy. Under Plan B participating employees contribute 5% of their total salary into the System, and the Town contributes an amount equal to 7.75%, of the total salaries of participating employees. For the year ended May 31, 2004 and 2003, the total contributions by the Town of Zwolle to this System were \$7,670 and \$7,585,

TOWN OF ZWOLLE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2004

respectively.

The contribution requirements of plan members and the Town of Zwolle are established and may be amended by state statute. As provided by Louisiana Revised Statute 11:103, the employer contributions are determined by actuarial valuation and are subject to change each year based on the results of the valuation for the prior fiscal year.

(8) Lease Obligations

The Town is obligated under a certain lease accounted for as an operating lease. This lease is for the use of land comprising 2.98 acres for the operation and drilling of water wells. The term of the lease is forty years with an annual rental of \$1,500 payable monthly at \$125 per month. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreement is not reflected in the Town's account groups. The following is a schedule by years of future minimum rental payments under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of May 31, 2004:

<u>Year ending</u> <u>May 31</u>	<u>Amount</u>
2005	1,500
2006	1,500
2007	1,500
2008	1,500
2009	1,500
Later years	<u>31,625</u>
Total minimum payments required	<u>\$39,125</u>
	=====

In addition, the Town has entered into a cancelable tractor lease dated April 4, 2000, which requires remaining lease payments of \$5,148 in 2005.

(9) Cash and Investments

Louisiana revised Statutes authorize the Town to invest in United States bonds, treasury notes or certificates, or to deposit funds in demand deposits, interest bearing demand deposits, money market accounts, or time deposits with state banks organized under Louisiana law and national banks having their principal offices in Louisiana.

As described in Note 1, cash equivalents include all short term highly liquid investments that are readily convertible to known amounts of cash and are so near their maturity that they present insignificant risk of changes in value because of interest rates. Generally, only investments which, at the date of purchase, have a maturity date no longer than three months qualify under this definition.

TOWN OF ZWOLLE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2004

At May 31, 2004, the Town of Zwolle has cash and investments totaling \$776,248, as follows:

	<u>Projects</u>	<u>General</u>	<u>Enterprise</u>	<u>Total</u>
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	
Demand deposits		\$751	\$ 14,879	\$ 6
15,630 Money market accounts			0	137,326
458,661				3 2 1 , 3 3 5
Savings accounts	0	513	0	513
Investments	0	200,763	100,381	301,144
Petty cash	<u>0</u>	<u>200</u>	<u>100</u>	<u>300</u>
 Total cash and investments	 \$751	 \$353,681	 \$421,816	 \$776,248
	=====	=====	=====	=====

Of the total of \$775,948 deposited in demand and time deposits as of May 31, 2004, \$123,961 was secured through federal depository insurance, \$380,285 was secured by the pledge of securities owned by the depository bank, and \$271,702 was on deposit with the Louisiana Asset Management Pool, which are considered secured deposits. These securities are held in the name of the pledging bank in a custodial bank that is mutually acceptable to both parties. These secured bank deposits are considered uncollateralized under the provisions of GASB Statement 3; however, Louisiana Revised Statutes require the custodial bank to advertise and sell the pledged securities within ten (10) days of being notified by the Town that the pledging bank has failed to pay deposited funds upon demand.

(10) Long-term Debt

On October 29, 1991, the Town entered into an agreement with Farmers Home Administration (FmHA) to allow the Town to undertake a water system improvement project at an estimated cost of \$975,000. Funding for the project was provided by FmHA by means of issuance of \$780,000 of revenue bonds (Bonds) and by a \$195,000 grant. On April 20, 1992, the Town executed a "Project Advance Agreement" with the Louisiana Public Facilities Authority (LPFA) to provide interim financing for the water system improvement project based on the commitment for permanent financing from FmHA. On September 25, 1993 the Bonds were issued and the interim financing with LPFA was repaid. The Bonds bear interest at the rate of five percent (5%) from the date of issuance. Principal and interest on the Bonds are payable over a forty (40) year period, with the first payment consisting of interest only (\$39,000) which was due on the first anniversary of the issuance date (September 25, 1993). Commencing one month after the first anniversary date, and monthly thereafter, payments of principal and interest will be \$3,799 monthly.

The following is a schedule by years of future principal payments under the above Bonds:

TOWN OF ZWOLLE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2004

Year ending <u>May 31</u>	Principal	Interest	Total
2005	12,698	32,885	45,583
2006	13,346	32,237	45,583
2007	14,029	31,554	45,583
2008	14,746	30,837	45,583
2009	15,409	30,174	45,583
Later years	<u>594,757</u>	<u>364,137</u>	<u>958,984</u>
Total	\$664,985 =====	\$521,824 =====	\$1,186,809 =====

Under the terms of the bond agreement with FmHA, all income and revenues earned or derived from operations of the utility fund are pledged and dedicated to the retirement of the Bonds, and are to be used for the following expressed purposes:

(a) Payment of all reasonable expenses of operation and maintenance of the system.

(b) Each month there will be set aside into a fund called the "Water Revenue Bond and Interest Sinking Fund" (the "Sinking Fund"), a sum equal to one-twelfth (1/12th) the interest falling due on the next interest payment date during the first year the Bonds are outstanding and, thereafter, a sum equal to the total amount of principal and interest falling due on the next principal and interest payment date together with such additional proportionate sum as may be required to pay said principal and interest as the same respectively become due. Monthly deposits of \$3,250 are required through September 25, 1993, and \$3,799 monthly thereafter. The balance required at May 31, 2004 is \$3,799. The present balance is \$5,014.

(c) There will be set aside monthly into a "Water Revenue Bond Reserve Fund" (the "Reserve Fund"), commencing with the month following completion of and acceptance of the improvements and extensions financed with the proceeds of the Bonds, a sum at least equal to five percent (5%) of the amount to be paid into the Sinking Fund provided for in paragraph (b) above, the payments into the Reserve Fund to continue until such time as there has been accumulated in the Reserve Fund a sum equal to the highest combined principal and interest falling due in any year on the Bonds as a Debt Service Reserve, the money in the Reserve Fund to be retained solely for the purpose of paying the principal of and interest on bonds payable from the Sinking Fund as to which there would otherwise be default. Monthly deposits of \$163 are required through September 25, 1993 and \$190 monthly thereafter until the balance reaches \$45,583. The balance required at May 31, 2004 is \$25,952. The present balance is \$29,232.

(d) There will be set aside monthly into a "Water Depreciation and Contingency Fund" (the "Contingency Fund") to care for depreciation, extensions, additions, improvements and replacements necessary to operate properly the

TOWN OF ZWOLLE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2004

System, commencing with the month following completion of and acceptance of the improvements and extensions financed with the proceeds of the Bonds, the sum of \$193 per month. The balance required at May 31, 2004 is \$27,220. The present balance is \$29,232.

A portion of retained earnings is reserved to cover these restricted assets for future debt service on the revenue bonds.

On November, 1,1999 the town entered into a Utility Relocation Assistance Funding Agreement with the Louisiana Department of Transportation & Development (DOT) whereby DOT agreed to loan the town up to \$136,361 in connection with utility relocation costs on Highway 171. The town has recorded a note payable to DOT in the amount of \$76,438 in connection with this project. The town has not yet determined a repayment schedule for this loan.

(11) Sales and Use Tax

On April 16, 1988, the voters of the Town of Zwolle approved a 1% sales and use tax upon the sale at retail, the use, the lease or rental, the consumption or storage for use or consumption of tangible personal property and on sales of services in the Town. The 1% sales and use tax is dedicated to the General Fund to be used for any lawful corporate purpose as deemed necessary by the Board of Aldermen. Sales taxes receivable as of May 31, 2004 amounted to \$18,409.

(12) Deficit in Retained Earnings

The retained earnings deficit in the Utility Fund at May 31, 2004 is due primarily to an unusually high level of repairs during 1995 and 2001, engineering fees of \$50,960 related to design work on a new wastewater processing plant, which design was subsequently abandoned by the Town, and increased operational costs of the wastewater treatment plant as a result of plant upgrades which became operational in October 1998. In September 1999 the Town increased water and sewer rates, effective December 1,1999, to return the Utility Fund to profitability and to eliminate the deficit in retained earnings within the next several years. The Town is also continuing to work to reduce operating costs of the sewer system.

(13) Contingencies

Grant Audits

The Town receives Federal and State grants for specific purposes that are subject to review and audit by Federal and State agencies. Such audits could result in a request for reimbursement by the State for expenditures disallowed, if any, under the terms and conditions of the appropriate agency.

Engineering fees

TOWN OF ZWOLLE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2004

The Town has been billed by Balar Associates, Inc. for engineering fees in the amount of \$59,060 related to the design of a new wastewater treatment plant, which design has subsequently been abandoned by the Town. The amount and payment of these fees have been in dispute, and Balar Associates, Inc. filed suit against the Town on October 18, 1995 to recover the billed fees. The Town has previously recorded an expense of \$50,960 relating to this contract, however in December 2000 this suit was settled for \$50,000, payable \$10,000 annually beginning in September 2001.

(14) Pending Litigation

In addition to the legal proceeding discussed in Note 13, the Town is a party to other legal proceedings involving suits filed against the Town for various reasons, however Town management does not believe the Town is exposed to any material losses in these proceedings. Accordingly, no provision for losses (other than as discussed in Note 13) is included in the financial statements.

(15) Note Payable

A \$200,000, one year, line of credit was established on May 9, 2002 with a local bank to support a \$100,000 recreational grant, with a corresponding \$100,000 Town matching requirement. As of May 31, 2004, the line of credit had a balance of \$168,043, and has been renewed for another year.

(16) Commitments

The Town is obligated to provide matching funds amounting to \$46,414 over the next year relating to grants received.

(17) Subsequent Events

On July 29, 2004 the Town borrowed \$49,444 for a local bank to finance improvements at the sewer treatment plant. This loan is to be repaid over 24 months, at \$2,148 monthly.

In addition, on June 8, 2004 the Town entered into a three year capital lease with Ford Motor Credit Company for two police cars. The lease requires monthly lease payments of \$1,196.

TOWN OF ZWOLLE, LOUISIANA
GENERAL FUND
BALANCE SHEET
MAY 31, 2004 AND 2003

ASSETS	2004	2003
Cash and cash equivalents	\$118,004	\$83,411
Cash - restricted	34,914	90,560
Investments	200,763	201,159
Receivables	8,397	8,819
<i>Due from Water and Sewer Fund</i>	60,289	54,582
Due from other governments	40,123	64,466
Prepaid insurance	<u>15,155</u>	<u>15,437</u>
 Total assets	 <u>\$477,645</u>	 <u>\$518,434</u>
 LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable	\$53,517	\$33,923
Payroll taxes withheld and payable	3,312	1,211
Accrued wages payable	5,773	8,356
Unearned grant revenue	0	64,898
Note payable	<u>168,043</u>	<u>181,734</u>
 Total liabilities	 <u>230,645</u>	 <u>290,122</u>
 Fund Balance:		
Fund balance - undesignated	<u>247,000</u>	<u>228,312</u>
 Total fund balance	 <u>247,000</u>	 <u>228,312</u>
 Total liabilities and fund balance	 <u>\$477,645</u>	 <u>\$518,434</u>

The accompanying notes are an integral part of these statements.

TOWN OF ZWOLLE, LOUISIANA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET (GAAP BASIS) AND ACTUAL
YEAR ENDED MAY 31, 2004
WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED MAY 31, 2003

	2004		2003	
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	ACTUAL
Revenues:				
Taxes:				
Ad valorem taxes	\$47,000	\$49,184	\$2,184	\$48,385
Franchise taxes	50,000	63,295	13,295	49,420
Sales taxes	230,000	232,836	2,836	223,706
Total taxes	<u>327,000</u>	<u>345,315</u>	<u>18,315</u>	<u>321,511</u>
Licenses and permits:				
Occupational licenses	74,000	90,214	16,214	75,176
Beer licenses	2,800	626	(2,174)	2,437
Total licenses and permits	<u>76,800</u>	<u>90,840</u>	<u>14,040</u>	<u>77,613</u>
Intergovernmental:				
Beer tax	9,000	7,704	(1,296)	8,179
Tobacco tax	0	0	0	0
DODT	6,171	6,171	0	6,171
Federal and state grants	926,178	192,666	(733,512)	107,635
Payment in lieu of tax - Sabine Parish Housing Authority	<u>7,000</u>	<u>6,859</u>	<u>(141)</u>	<u>7,148</u>
Total intergovernmental revenue	<u>948,349</u>	<u>213,400</u>	<u>(734,949)</u>	<u>129,133</u>
Charges for services:				
Garbage and trash charges	64,500	63,250	(1,250)	57,275
Total charges for services	<u>64,500</u>	<u>63,250</u>	<u>(1,250)</u>	<u>57,275</u>
Fines and Forfeits:				
Fines	35,000	42,614	7,614	33,078
Total fines and forfeits	<u>35,000</u>	<u>42,614</u>	<u>7,614</u>	<u>33,078</u>
Miscellaneous revenues:				
Interest income	7,200	1,114	(6,086)	6,755
Other	72,150	63,504	(8,646)	15,040
Total miscellaneous revenues	<u>79,350</u>	<u>64,618</u>	<u>(14,732)</u>	<u>21,795</u>
Total revenues	<u>1,530,999</u>	<u>820,037</u>	<u>(710,962)</u>	<u>640,405</u>

The accompanying notes are an integral part of these statements.

TOWN OF ZWOLLE, LOUISIANA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET (GAAP BASIS) AND ACTUAL
YEAR ENDED MAY 31, 2004
WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED MAY 31, 2003

	<u>2004</u>		<u>2003</u>	
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	ACTUAL
Expenditures:				
Current:				
General government:				
Salaries - Administrative	\$0	\$0	\$0	\$0
Salaries - Mayor & Alderman	37,200	31,800	5,400	31,000
Salaries - office	16,640	16,803	(163)	18,454
Legal & accounting	6,550	6,980	(430)	6,113
Payroll taxes	4,119	3,748	371	3,783
Unemployment benefits	0	0	0	0
Office supplies & printing	5,200	9,599	(4,399)	5,883
Insurance	18,690	5,104	13,586	9,112
History and anti-litter grant	0	383	(383)	381
Depot maintenance	400	9,461	(9,061)	418
Dues and subscriptions	4,500	1,533	2,967	2,313
Advertising	2,400	1,756	644	2,801
Supplies	6,500	6,305	195	6,361
Utilities and telephone	10,750	12,905	(2,155)	11,649
Collection fee	3,300	4,447	(1,147)	3,509
Repairs & maintenance	1,300	4,306	(3,006)	3,388
Travel & seminars	9,000	7,819	1,181	7,500
Miscellaneous	9,900	14,049	(4,149)	27,855
Fiesta expense	750	87	663	30
Capital outlay	259,000	9,752	249,248	0
Total general government	<u>396,199</u>	<u>146,837</u>	<u>249,362</u>	<u>140,550</u>
Public safety:				
Police department:				
Salaries	140,000	133,721	6,279	141,002
Training	1,500	549	951	2,575
Jail expense	0	0	0	0
Police car expense	16,500	17,400	(900)	14,622
Insurance	30,600	37,333	(6,733)	32,807
Miscellaneous	17,022	10,922	6,100	12,721
Supplies	4,000	5,624	(1,624)	2,747
Payroll taxes	10,710	9,609	1,101	10,787
Retirement	13,200	8,050	5,150	5,481
Telephone	600	2,478	(1,878)	770
Uniform maintenance	1,750	1,239	511	1,784
Capital outlay	12,036	0	12,036	25,245
Total police department	<u>247,918</u>	<u>226,925</u>	<u>20,993</u>	<u>250,541</u>

The accompanying notes are an integral part of these statements.

TOWN OF ZWOLLE, LOUISIANA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET (GAAP BASIS) AND ACTUAL
YEAR ENDED MAY 31, 2004
WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED MAY 31, 2003

	2004		VARIANCE FAVORABLE (UNFAVORABLE)	2003
	BUDGET	ACTUAL		ACTUAL
Expenditures: (continued)				
Fire department	\$0	\$2,106	(\$2,106)	\$0
Highways and streets:				
Salaries	23,200	17,584	5,616	19,528
Payroll taxes	1,800	1,475	325	1,494
Repairs & maintenance	448,284	91,624	356,660	58,057
Supplies & materials	3,400	2,609	791	3,181
Miscellaneous	4,072	1,960	2,112	3,377
Street signs	400	412	(12)	197
Street lighting	24,000	27,188	(3,188)	24,037
Street truck & tractor expense	18,865	16,187	2,678	16,128
Insurance	4,150	8,255	(4,105)	5,332
Capital outlay	0	2,500	(2,500)	5,000
Total highways and streets	<u>528,171</u>	<u>169,794</u>	<u>358,377</u>	<u>136,331</u>
Health and sanitation:				
Salaries	37,336	42,107	(4,771)	39,132
Payroll taxes	2,894	3,088	(194)	2,994
Garbage truck expense	6,700	5,832	868	14,181
Miscellaneous	4,036	1,643	2,393	2,749
Insurance	5,480	14,536	(9,056)	9,571
Supplies	600	1,015	(415)	367
Capital outlay	0	0	0	0
Total health and sanitation	<u>57,046</u>	<u>68,221</u>	<u>(11,175)</u>	<u>68,994</u>
Recreation:				
Repair & maintenance	1,000	1,677	(677)	6,979
Miscellaneous	145	7,099	(6,954)	1,965
Capital outlay	413,658	174,074	239,584	197,146
Utilities	1,500	4,616	(3,116)	3,388
Total recreation	<u>416,303</u>	<u>187,466</u>	<u>228,837</u>	<u>209,478</u>
Total expenditures	<u>1,645,637</u>	<u>801,349</u>	<u>844,288</u>	<u>805,894</u>
Excess (deficiency) of revenues over (under) expenditures	(114,638)	18,688	133,326	(165,489)
Fund balance, beginning of year	<u>228,312</u>	<u>228,312</u>	<u>0</u>	<u>393,801</u>
Fund balance, end of year	<u>\$113,674</u>	<u>\$247,000</u>	<u>\$133,326</u>	<u>\$228,312</u>

The accompanying notes are an integral part of these statements.

ENTERPRISE FUND

Water and Sewer Fund - To account for the provision of water and sewer services to residents of the Town. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, financing and related debt service, and billing and collection.

TOWN OF ZWOLLE, LOUISIANA
ENTERPRISE FUND - WATER AND SEWER FUND
COMPARATIVE BALANCE SHEET
MAY 31, 2004 AND 2003

ASSETS	2004	2003
Current assets:		
Cash and cash equivalents	\$230,552	\$252,355
Investments, at cost	100,381	100,573
Accounts receivable, net of allowance for doubtful accounts of \$7,986 in 2004 and \$7,634 in 2003	27,389	29,897
Due from state of Louisiana	0	30,101
Prepaid expenses	<u>0</u>	<u>667</u>
<i>Total current assets</i>	<u>358,322</u>	<u>413,593</u>
Restricted assets:		
Cash and cash equivalents		
Customers' deposits	27,405	25,870
Revenue bonds:		
Sinking fund	5,014	4,965
Reserve fund	29,232	28,947
Depreciation & contingency fund	29,232	28,947
Construction fund	<u>0</u>	<u>0</u>
<i>Total restricted assets</i>	<u>90,883</u>	<u>88,729</u>
Land	4,560	4,560
Plant and equipment, at cost, net of accumulated depreciation of \$1,197,808 in 2004 and \$1,127,331 in 2003	<u>2,796,404</u>	<u>2,849,464</u>
<i>Total assets</i>	<u>\$3,250,169</u>	<u>\$3,356,346</u>

The accompanying notes are an integral part of these statements.

TOWN OF ZWOLLE, LOUISIANA
ENTERPRISE FUND - WATER AND SEWER FUND
COMPARATIVE BALANCE SHEET
MAY 31, 2004 AND 2003

LIABILITIES AND FUND EQUITY	2004	2003
Liabilities:		
Current liabilities (payable from current assets):		
Accounts payable	\$13,464	\$29,591
Sales taxes payable	122	343
Note payable to Balar	10,000	10,000
Due to General Fund	<u>60,289</u>	<u>54,582</u>
Total current liabilities (payable from current assets)	<u>83,875</u>	<u>94,516</u>
Current liabilities (payable from restricted assets):		
Customers' meter deposits	27,405	25,870
Water revenue bonds	12,698	12,079
Interest payable	<u>547</u>	<u>575</u>
Total current liabilities (payable from restricted assets)	<u>40,650</u>	<u>38,524</u>
Long-term liabilities:		
Note payable to Balar	10,000	20,000
Note payable to LA DOT	76,438	76,438
Water revenue bonds	<u>652,286</u>	<u>664,907</u>
Total long-term liabilities	<u>738,724</u>	<u>761,345</u>
Total liabilities	<u>863,249</u>	<u>894,385</u>
Fund equity:		
Contributed capital-		
Municipality	133,944	133,944
Federal Revenue Sharing	62,540	62,540
HUD block grant	72,272	72,272
FHA grant	195,000	195,000
Louisiana	817,018	825,186
LDUCA CDB grant	<u>1,309,257</u>	<u>1,309,257</u>
Total contributed capital	<u>2,590,031</u>	<u>2,598,199</u>
Retained earnings (deficit):		
Reserved for revenue bonds-		
Sinking fund	5,014	4,965
Reserve fund	29,232	28,947
Depreciation & contingency fund	29,232	28,947
Construction fund	0	0
Unreserved (deficit)	<u>(266,589)</u>	<u>(199,087)</u>
Total retained earnings (deficit)	<u>(203,111)</u>	<u>(136,228)</u>
Total fund equity	<u>2,386,920</u>	<u>2,461,971</u>
Total liabilities and fund equity	<u>\$3,250,169</u>	<u>\$3,356,356</u>

The accompanying notes are an integral part of these statements.

TOWN OF ZWOLLE, LOUISIANA
 COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS -
 WATER AND SEWER FUND - BUDGET (GAAP BASIS) AND ACTUAL
 YEARS ENDED MAY 31, 2004 AND 2003

	2004		VARIANCE FAVORABLE (UNFAVORABLE)	2003
	BUDGET	ACTUAL		ACTUAL
Operating revenues:				
Water charges	\$200,000	\$183,975	(\$16,025)	\$207,572
Sewer charges	120,000	112,838	(7,162)	119,217
Tap, connect and reconnect fees	15,783	13,140	(2,643)	15,354
Total operating revenues	<u>335,783</u>	<u>309,953</u>	<u>(25,830)</u>	<u>342,143</u>
Operating expenses:				
Water Department:				
Legal and accounting	1,775	1,775	0	1,856
Bad debt expense	50	352	(302)	1,294
Depreciation	38,500	32,431	6,069	31,308
Insurance	7,184	9,317	(2,133)	6,491
Miscellaneous	10,410	11,526	(1,116)	11,646
Office supplies & postage	3,250	4,142	(892)	4,244
Payroll taxes	3,953	4,054	(101)	4,008
Rent	3,500	10,888	(7,388)	3,908
Repairs and maintenance	9,500	16,315	(6,815)	7,720
Salaries	51,000	52,996	(1,996)	51,634
Supplies	17,500	25,630	(8,130)	22,962
Telephone	1,100	2,205	(1,105)	1,415
Travel	1,500	788	712	1,012
Truck expense	3,000	3,674	(674)	3,858
Utilities	24,000	22,006	1,994	24,289
Total water department expenses	<u>176,222</u>	<u>198,099</u>	<u>(21,877)</u>	<u>177,645</u>
Sewer Department:				
Chemicals	4,000	9,523	(5,523)	3,462
Legal and accounting	1,775	1,775	0	1,856
Consultant fees	0	0	0	31
Depreciation	50,000	59,205	(9,205)	49,282
Insurance	954	3,883	(2,929)	2,741
Miscellaneous	5,973	4,853	1,120	3,945
Office supplies	75	0	75	0
Payroll taxes	1,318	1,363	(45)	1,336
Repairs and maintenance	13,000	4,079	8,921	14,867
Salaries	17,000	17,822	(822)	17,463
Sewer testing	4,260	3,550	710	4,260
Supplies	7,000	11,100	(4,100)	4,445
Travel	1,300	420	880	615
Truck expenses	0	0	0	0
Utilities	30,000	31,467	(1,467)	28,224
Total sewer department expenses	<u>136,655</u>	<u>149,040</u>	<u>(12,385)</u>	<u>132,527</u>
Total operating expenses	<u>312,877</u>	<u>347,139</u>	<u>(34,262)</u>	<u>310,172</u>
Operating income (loss)	<u>22,906</u>	<u>(37,186)</u>	<u>(60,092)</u>	<u>31,971</u>
Nonoperating revenues (expenses):				
Interest income	6,500	3,867	(2,633)	6,369
Interest expense	(33,000)	(33,554)	(554)	(34,176)
	<u>(26,500)</u>	<u>(29,687)</u>	<u>(3,187)</u>	<u>(27,807)</u>
Net income (loss)	(3,594)	(66,873)	(63,279)	4,164
Retained earnings, beginning of year	(136,238)	(136,238)	0	(140,402)
Retained earnings (deficit), end of year	<u>(\$139,832)</u>	<u>(\$203,111)</u>	<u>(\$63,279)</u>	<u>(\$136,238)</u>

The accompanying notes are an integral part of these statements.

GENERAL FIXED ASSETS ACCOUNT GROUP

To account for fixed assets not used in proprietary fund operations.

TOWN OF ZWOLLE, LOUISIANA
 COMPARATIVE STATEMENT OF GENERAL FIXED ASSETS
 MAY 31, 2004 AND 2003

	2004	2003
General fixed assets, at cost:		
Land	\$121,491	\$121,491
Buildings	201,656	191,904
Equipment	177,461	174,961
Automobiles, trucks and machinery	205,395	205,395
Recreation equipment	<u>411,081</u>	<u>237,006</u>
Total general fixed assets	<u>\$1,117,084</u>	<u>\$930,757</u>
Investment in general fixed assets:		
General fund revenues	\$734,925	\$726,672
Federal revenue sharing funds	120,215	120,215
Grants	237,575	59,501
Contributions	<u>24,369</u>	<u>24,369</u>
Total investment in general fixed assets	<u>\$1,117,084</u>	<u>\$930,757</u>

The accompanying notes are an integral part of these statements.

EXHIBIT H-2

TOWN OF ZWOLLE, LOUISIANA
 STATEMENT OF CHANGES IN GENERAL FIXED ASSETS
 YEAR ENDED MAY 31, 2004

	LAND	BUILDINGS	EQUIPMENT	AUTOMOBILES, TRUCKS AND MACHINERY	RECREATION EQUIPMENT	TOTAL
General fixed assets, June 1, 2003	\$121,491	\$191,904	\$174,961	\$205,395	\$237,006	\$930,757
Additions	0	9,752	2,500	0	174,075	186,327
Deductions	0	0	0	0	0	0
General fixed assets, May 31, 2004	<u>\$121,491</u>	<u>\$201,656</u>	<u>\$177,461</u>	<u>\$205,395</u>	<u>\$411,081</u>	<u>\$1,117,084</u>

The accompanying notes are an integral part of these statements.

CAPITAL PROJECTS FUND

The Capital Projects Fund is used to account for financial resources to be used for the construction of major capital facilities.

TOWN OF ZWOLLE, LOUISIANA
 CAPITAL PROJECTS FUNDS
 LCDBG FUND
 COMPARATIVE BALANCE SHEET
 MAY 31, 2004 AND 2003

ASSETS	2004	2003
Cash	\$751	\$0
Due from Zwolle General Fund	\$0	\$0
LCDBG grant revenue receivable	<u>5,158</u>	<u>0</u>
<i>Total assets</i>	<u>\$5,909</u>	<u>\$0</u>
 LIABILITIES AND FUND BALANCE		
Liabilities:		
LCDBG grant contracts payable	<u>\$5,909</u>	<u>\$0</u>
<i>Total liabilities</i>	5,909	0
Fund balance - unreserved	<u>0</u>	<u>0</u>
<i>Total liabilities and fund balance</i>	<u>\$5,909</u>	<u>\$0</u>

The accompanying notes are an integral part of these statements.

TOWN OF ZWOLLE, LOUISIANA
 CAPITAL PROJECTS FUNDS
 LCDBG FUND
 COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 YEARS ENDED MAY 31, 2004 AND 2003

	2004	2003
	Street grant 598541	Street grant 574134
Revenues:		
LCDBG grant	\$55,873	\$23,032
Local contributions	<u>0</u>	<u>17,548</u>
Total revenues	<u>55,873</u>	<u>40,580</u>
Expenditures:		
Administration	21,621	4,143
Acquisition	0	0
Engineering	29,833	6,000
Construction	<u>4,419</u>	<u>30,527</u>
Total expenditures	<u>55,873</u>	<u>40,670</u>
Excess of revenues over expenditures	0	(90)
Fund balance, beginning of year	<u>90</u>	<u>90</u>
Fund balance, end of year	<u>\$90</u>	<u>\$0</u>

The accompanying notes are an integral part of these statements.

OTHER SUPPLEMENTARY INFORMATION

SCHEDULE 1

TOWN OF ZWOLLE, LOUISIANA
SCHEDULE OF PER DIEM PAID THE BOARD OF ALDERMEN
YEAR ENDED MAY 31, 2004

Roger Lopez	\$13,200
Allen Rivers	3,800
Martha Henderson	3,800
Carolyn Cutright	3,600
Nell Maxey	3,600
Elzy Anderson	3,800

Supplementary schedule. Presented as additional analytical data.

TOWN OF ZWOLLE, LA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED MAY 31, 2004

PRIOR YEAR FINDINGS

Finding number 2003-01

U. S. DEPARTMENT OF JUSTICE
COPS MORE1 grant number 2001CMWX0191

The Town purchased computer equipment amounting to \$16,157 without following Louisiana bid laws.

\$16,157

Recommendation

The Town must understand that purchases under grants must follow Louisiana bid laws, even if the grant is a federal grant.

Management response

In the future the Council will closely monitor all pending purchases to be sure that the Louisiana bid law limits are followed.

Finding number 2003-02

One of the Town's bank account's reconciliation had not been in balance for most of the year. The account is the only one reconciled by using the accounting software, and if it does not reconcile, the software plugs in an unreconciled difference, which gives the appearance of the account being reconciled.

Recommendation

The Town clerk should not consider the reconciliation complete until the unreconciled difference is zero. In addition, the Treasurer should review this account reconciliation each month to be sure the reconciliation is complete.

Management's response

The Town will follow the above recommendation.

Finding number 2003-03

The police ticket database has not been properly undated for court actions and payment activity during the period from November 2002 to July 2003. As a result, the database information given the Mayor prior to Mayor's court may be incorrect, as it relates to the defendant's history with the Town.

Recommendation

The police clerk currently responsible for maintaining the database should start with July 2003 and work backwards in time, checking the accuracy of payments and court actions posted to the database, and making the necessary corrections, until the accuracy of the database is assured.

Management's response

The police clerk has made the necessary corrections to the database

TOWN OF ZWOLLE, LA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED MAY 31, 2003

Finding number 2003-04

The trial balance of utility customer's receivables and the related water deposits are not being reconciled to the general ledger.

Recommendation

The utility billing system is a system separate from the general ledger and should be reconciled to the general ledger monthly by the Town Clerk. Internal controls over accounts receivable and meter deposits would be improved with the reconciliations done on a monthly basis.

Management's response

The Town Clerk will start doing reconciliations as of December 31, 2004.

TOTAL PRIOR YEAR QUESTIONED COSTS \$16,157

CURRENT YEAR FINDINGS

Finding number 2004-01

On June 8, 2004 the Town entered into a 3 year capital lease with Ford Motor Credit Company for the lease of two police cars. In addition, on July 29, 2004, the Town borrowed \$49,444 from a local bank, repayable over two years, for improvements to the sewer treatment plant. Approval from the State Bond Commission was not obtained.

\$89,420

Recommendation

The Town must obtain prior approval from the State Bond Commission before borrowing funds for finalizing lease agreements.

Management response

In the future the Council will closely monitor all transactions of this type to be sure that the Louisiana law is followed.

Finding number 2004-02

The Town did not amend the budget appropriately and the five percent variance allowed by Louisiana law was exceeded. The variances were due primarily to the delay of starting certain projects funded by grants.

Recommendation

The Council must monitor the budget on a monthly basis and make timely changes as appropriate.

Management response

In the future the Council will closely monitor the monthly budget reports to be sure that the Louisiana law is followed.

TOTAL CURRENT YEAR QUESTIONED COSTS \$89,420

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Roger Lopez, Mayor
and Board of Aldermen
Town of Zwolle, Louisiana

I have audited the general purpose financial statements and the combining, individual fund and account group financial statements of the Town of Zwolle, Louisiana, as of May 31, 2004 for the year then ended, and have issued my report thereon dated November 29, 2004. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Town of Zwolle, Louisiana's general purpose financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provision was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed two instances of noncompliance that are required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as finding number 2004-01 and 2004-02.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Town of Zwolle, Louisiana's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing an opinion on the component unit financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect Town of Zwolle, Louisiana's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 2003-04.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial

reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe none of the reportable conditions described above is a material weakness.

This report is intended for the information of management, Louisiana Legislative Auditor, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.



EUGENE W. FREMAUX II, CPA
November 29, 2004